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Chilton's

AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket

APRIL 1987

BASIC ADVERTISING: TARGETS & TACTICS

A Hard Look At Hard Parts

Cooling/Heating System Service

Detailing The Market

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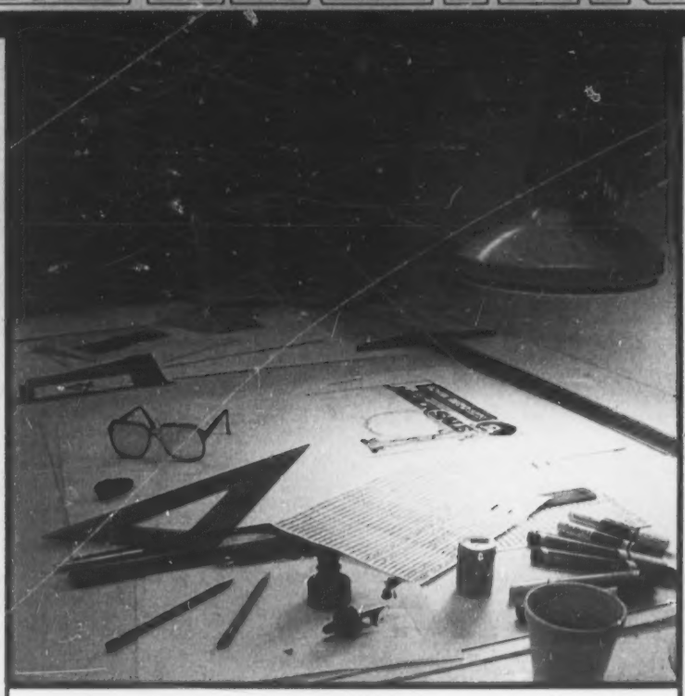

FEATURES

Advertising: Techniques And Tactics 34
No retailer really wants to advertise. But since you have to in order to survive in the market today, you may as well do it right. Here is an advertising primer.

A Hard Look At Hard Parts 46
You'll have to work harder this year to make those hard parts sales. But there is plenty of profit to be made selling these aftermarket basics.

Service Report: For Love And Money 54
Servicing cooling/heating systems is an easy way to make money in your service bays. All you have to do is do the job right.

DEPARTMENTS

Detailing The Market 5
Editorial 13
The *Automotive Marketing* Index 14
Market Line 17
Merchandising Page 58
Products 60
Rep Guide 67
Ad Index 70
Reader Service Card 71

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PUBLISHER'S NOTES

WINNING AT ADVERTISING

Advertising is basic to the retail business. No matter which kind of retail business it is, advertising is a given.

This month our senior news and features editor John Wirebach looks at advertising, illustrating the challenges with a case study of a small retailer whose market area takes it up against some very sophisticated, very large retail operations.

There's more to come in May and June when we look at co-op advertising from the suppliers' and retailers' points of view.

Be sure to read this exciting series.

The hard parts business is another aftermarket basic, and contributing editor Edward L. Kaufman looks at that market. We've added specifics in terms of product categories to his analysis.

Then there's merchandising, our *AM* Index, products, and Market Line, all put together in this issue by our Association of Business Publishers award-winning editorial staff. My personal congratulations, and appreciation, to them on earning their fourth "Pulitzer Prize of the business press" in five years!

It's great to have your work recognized by your peers! And we like hearing from you about the kind of job we're doing, too. Let us know. ■

Sarah Frankson
Publisher

THE AUTOMOTIVE MARKETING INDEX

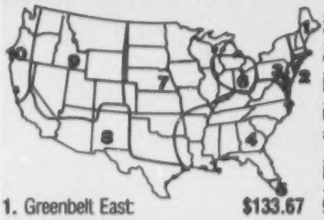
THE 1986-87 *AUTOMOTIVE MARKETING* MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

JANUARY 1987 NATIONAL AVERAGE MARKETBASKET PRICES

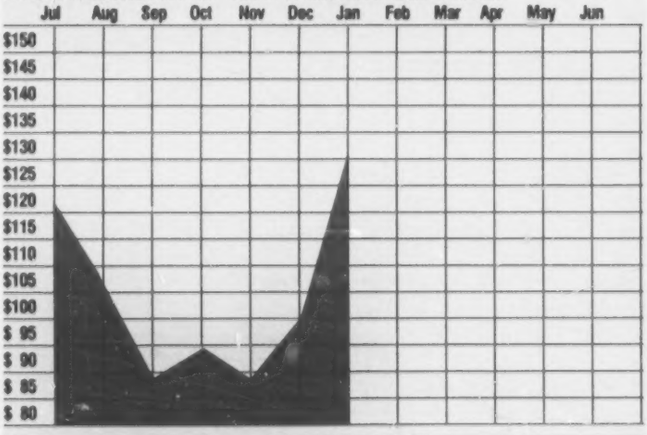
A non-resistor spark plug:	$ .74	A gas-charged shock:	$ 11.98
An oil filter:	2.14	One gallon of antifreeze:	3.30
A can of 10W30 oil:	.75	One pair of wiper refills:	1.88
A can of paste wax:	2.69	A 40-month battery:	32.73
An AM/FM/Cassette:	75.94	Total:	$132.15

DECEMBER AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	$133.67	3. Smokestack East:	$140.73
2. Megapolis East:	153.21	4. Old South:	128.85
		5. Caribbean South:	118.51
		6. Smokestack Central:	92.57
		7. Grainbelt Central:	98.34
		8. Spanish West:	199.61
		9. Desert West:	132.15
		10. Greenbelt West:	123.53

NATIONAL AVERAGE MONTHLY 1986-87 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	Mo/Qr	Current Period	Prior Period	Year Ago, Same Period	Low (61-87)	High (61-87)
Personal Income	billion	Dec 86	$3,554.8	$3,526.6	$3,418.0	Jan 61	Dec 86
Personal Consumption Expenditures	billion	3Q	$2799.3	$2,732.0	$2,67.1	1Q 61	3Q 86
Consumer Price Index	67 = 100	Dec	331.1	330.8	327.4	May 61	Dec 86

AMERICAN-BUILT CARS SOLD IN FEBRUARY 1987

New car sales were slow the first two months of 1987, as the new tax law took away incentives for new car purchases. Still, sales were better than many expected.

Maker	1987	1986	% Change
American Honda	27,851	14,637	90.3%
American Motors	2,501	6,472	-61.4
Chrysler	78,508	80,322	-2.3
Ford	157,031	146,898	6.9
General Motors	277,956	351,587	-20.9
Nissan	7,200	6,843	5.2
Volkswagen of America	3,808	5,873	-35.2
Total U.S. Industry	556,953	612,632	-9.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1987 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to March 18.

	Exchange	52-week High	52-week Low	3/18 Quote	P-E Ratio
Armor All	OTC	19	10 1/4	17 7/8	–
Arrow Auto	AMEX	13 3/4	9	12 1/4	–
Cardis Corp.	AMEX	10	5 5/8	6 1/8	6
Champ Parts	OTC	12	3 1/2	11 3/4	47
Champ Spk Plg	NYSE	13 3/4	8 3/4	13	–
Crown Auto	OTC	4 1/4	3	3 5/8	17
Dana Corp.	NYSE	42	25 1/2	40 1/4	24
Durakon	OTC	18	9 7/8	13 1/2	18
Echlin	NYSE	24 3/8	15 1/4	23	20
Facet	NYSE	19 7/8	8 3/4	18 1/2	33
Genuine Parts	NYSE	53 3/8	40	52 1/4	23
Mr. Gasket	OTC	15	4 3/4	6 3/8	13
Prlz Hannflin	NYSE	37 5/8	20 1/4	33 3/4	17
Pennzoil	NYSE	84 1/2	48 1/8	81 3/4	64
Pep Boys	NYSE	53	26 3/4	48	32
Perry Drugs	NYSE	20 7/8	12	14 3/4	42
Purolator	NYSE	36 3/4	15	36 1/8	–
Quaker State	NYSE	30	23 1/2	29 1/2	15
Republic Auto	OTC	10	6 5/8	8 1/8	–
Rite Aid	NYSE	39 1/2	26 3/4	37 1/2	21
Sealed Power	NYSE	34 7/8	23 1/8	34 1/2	15
Southland	NYSE	60 1/2	44	54	14
Stan Mtr Prod	NYSE	25 3/8	14 5/8	22 3/8	16
Supr Ind	AMEX	16 3/8	11 1/8	16	11
TBC Corp.	OTC	12 1/2	5 3/4	12 1/2	–
Tenneco	NYSE	50 1/2	35 3/8	48 3/8	–
Trak Auto	OTC	18 3/4	11	14 1/4	356
Triad Systems	OTC	15 1/8	8 1/2	13 5/8	29

PRODUCT OF THE MONTH: WAX & POLISH

Drawing from the 1987 *Automotive Marketing Consumer Automotive Repair Study*, we look at the individuals who purchased and installed wax and polish products during a 12-month period.

			Age					Income				Hours Per Month Spent On DIY				Number Of Cars Responsible For		
Total	Male	Female	-25	25-34	35-44	45-54	55+	-$20K	$20-30K	$30-40K	40K	-1 hr	1-5 Hrs	6-10 Hrs	11+ Hrs	1	2	3 or More
100.0%	67.3%	32.7%	13.5%	30.8%	27.5%	12.7%	15.4%	28.4%	28.3%	12.4%	21.0%	16.5%	52.7%	18.7%	11.0%	37.1%	40.3%	22.7%

MARKET LINE

Do ESAs Affect Aftermarket Sales? The Jury's Still Out

Recently some aftermarketers have worried that the growing sales of extended service agreements (ESAs) will hurt their business since car owners will buy aftermarket products and service where they get ESA work done, at their dealerships.

For example, Dan McNamara, vice president of Mitsubishi Motor Sales of America, says, "Dealers and factories are also aggressively pursuing extended service contracts and protection chemical warranties as other ways of lengthening the ties between vehicle buyer and service dealer." The result: car owners get used to going to their dealers for car products and services.

This is indeed what new car makers hope will happen. Attempts to keep dealers as the primary source of OE parts are one way of making this happen. In 1982, General Motors won litigation keeping its franchised dealers in control of crash-parts distribution. More recently, however, an independent warehouse forced Mercedes Benz to stop requiring its dealers to buy parts only from Mercedes.

Therefore, dealer-sold ESAs (also sometimes called extended service contracts, or ESCs) have become one of the most important ways for dealers to keep aftermarket business as well as to increase revenue and profits as new car sale profits are being squeezed.

ESAs were first sold in 1970. Ford Motor Co. first offered its ESAs through its dealers in 1976. General Motors joined the bandwagon in 1979, rapidly followed by Chrysler. Now, more than 100 independent companies such as General Warranty, Harbor City, CA, also offer ESAs through new car dealers.

In 1974, only around 300,000 ESAs were sold, while more than ten million cars were sold. By 1982, this number had jumped to around two million ESAs, although the number of vehicles sold that year dropped to some seven million.

According to Julie Hegley of General Warranty, it is difficult to say how many ESAs are sold today, since the companies selling them do not release actual figures. However, she believes about 40% of new car buyers today buy some kind of ESA.

An ESA is not a warranty, which comes free-of-charge with a product purchase. It is, instead, a form of insurance, sold separately from the car, that generally covers specific parts and labor for up to five years or for up to 50,000 miles. The cost of an ESA ranges from about $200 to $1,000, depending on the company and the coverage.

It is sold through new car dealers, but by law, the car owner is not required to return to the dealer for service under the ESA – although most brochures explaining ESAs say that the car owner should return to the dealer for service.

However, most ESAs include a toll-free number that the car owner can call to find any other service outlet – including aftermarket volume retailer service bays – approved for ESA work (AMC and Ford do not require phone calls; AMC pays for jobs done by independent shops only if there is no nearby AMC or Jeep dealer).

The fact that any service bay may do ESA-covered work is something that can be stressed by other types of service outlets in their promotions. Some successful service outlets even offer to make any required ESA calls for their customers.

Many independent service outlets, however, find the paperwork and the spotty coverage which pays for some types of parts and work but not others, makes it not worthwhile to do ESA work. As David

THE AFFECT OF ESAs ON NON-DEALER SERVICE OPERATIONS

We asked the managers of service operations, both in large chains like Sears and in independent garages, if they did Extended Service Agreement work, and if they found these agreements hurting their businesses by keeping customers at new car dealers for service. Half did ESA work, while half did not. And, the majority didn't see ESAs negatively affecting their businesses.

Source: 1987 *Automotive Marketing* Service Panel

McKouen, Metric Motion, Flagstaff, AZ, says, "I've found with extended service contracts, it's hard to get paid on them. In many cases we've refused to do it."

Although, as our chart shows, many service managers fear ESAs will hurt independent service businesses, there is little hard evidence that so far ESAs have helped new car dealers gain—or even hold onto—a share of the service market—repair and maintenance car work. New car dealers had a 32% share of the total service job market in 1972, according to industry research. Despite the appearance of ESAs, this share has steadily declined ever since. In 1985, two years after most of the original warranties on the two million 1982 cars covered by ESAs had expired and their ESA coverages started, dealership share had actually *dropped* to 19%, MEMA reports. On top of that, according to MEMA, in 1985 new car dealers had only a 2% share of the DIY market—about on a par with drugstores and supermarkets.

WHEN PROTECTION EXPIRES

Even with extended service contracts added to original warranties, aftermarket business should not be greatly affected since generally after six years (the five-year-plan is the most popular sold) the car is no longer protected by any plan. And, MEMA studies show that the average car a DIYer works on is seven years old.

At the same time, the number of car dealers that even offer service has fallen over recent years. Where there were 27,120 such dealers in 1980, by 1983 this number had fallen almost 5% to 24,300 (as of 1985 there were some 25,800 new car dealers, down from a total of 29,800 in 1980, but not all offered service).

So, to date ESAs apparently haven't had a significant, positive effect on dealer service business—or a negative one on the aftermarket. Most aftermarket industry experts downplay the future effect of the ESA. They point out that there is often a considerable difference between how far a customer will drive to buy a new car and how far he will drive for service. In the first case, he or she is often willing to drive a good many miles to buy the desired car at the desired price. In the latter case, he or she generally is not willing to put up with the inconvenience of out-of-the-way service departments, especially for minor repairs and adjustments.

Moreover, ESAs don't cover all repair jobs so the car owner will return to a local service dealer for quite a number of service jobs. There is, as well, a great deal of negative feelings about the quality, length of time, and price (for items not covered by the ESAs) of dealer service work. All of this encourages many car owners to patronize independent service bays.

But what about product sales to the aftermarket's biggest customer, the DIYer? Here again, little impact is seen. To begin with, DIYers just aren't buying ESAs in large numbers. According to General Warranty's Hegley, the sales of ESAs is directly impacted by the new car buyer's DIY ability. The 19.8% of all DIYers who put in over six hours monthly working on their own cars (according to the 1987 *AM Consumer Automotive Repair Study*) aren't apt to buy ESAs.

"If he's used to doing his own car maintenance work, he'll be less likely to buy an agreement," Hegley says. "But, this will have less impact in the future as cars get more complicated and more electronics are put on board. General Motors will have some $2,000 worth of electronics in

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MARKET LINE

each car in the near future. People will be afraid to work on this sort of item, and extended service agreement market penetration will increase." However, she goes on to admit, "I don't think this market will ever see 100% market penetration—and I don't think it ever should."

It is interesting to note that, in line with this, data from the *Automotive Marketing Consumer Automotive Repair Studies* indicates that some 60% of car owners are also serious DIYers—which fits with 40% of new car buyers buying ESAs.

TOP SELLING NEW CARS

Domestic producers sold 8.2 million cars in 1986, with Chevrolet (1.7 million), Ford (1.4 million), and Oldsmobile (1.06 million) the leading makes. The imports together sold 3.2 million new cars for an import percentage of 28.3%. The leading models in sales:

Source: Automotive News

Aftermarket experts also point to the 1986 MEMA study, *Car Maintenance In The USA*, that reveals that, "The average age of vehicles on which DIYers work is 7.0 years versus only 5.9 for vehicles serviced by mechanics." Since most *extensive* U.S. new car warranties are for 12 months or 12,000 miles and the most popular ESAs run for six years, generally by the time seven years are up the car is no longer covered by any type of protection plan. Of course, most luxury cars offer longer protection plans, but these cars are little worked on by DIYers, anyway.

Chrysler recently adopted a seven-year ESA, but since only 13.5% of DIYers, according to the 1987 *Consumer Automotive Repair Study*, who own one car own a Chrysler product, this move should not affect the aftermarket to any great degree in the immediate future.

Therefore, the feeling is, on the whole, that right now the ESA is simply another tool used to sell new cars and doesn't seriously affect serious aftermarket business to its most important customers, the DIYers. However, the jury may still be out on the long-range impact of the ESA on the aftermarket. ■

MARKET LINE

INDUSTRY COMMENT

Consumer Statement

In our March issue, we reported on the Consumer Reports *magazine tests of several aftermarket products. One product manufacturer, Kendall Refinery Co., Division of Witco Corp., disputed the results of the* Consumer Reports' *test and said it would prepare a reply. Here is Kendall's reply.*

First of all, let us say that the Kendall Motor Oils studied by *Consumer Reports* ARE recommended for extremely cold weather, and that we GUARANTEE their performance.

We have not received any field complaints from consumer or professional mechanics about cold weather starting problems with our products.

What we're talking about as far as the magazine article is concerned are the invalid conclusions they drew from their limited test results.

If you read the article carefully, you'll notice that *Consumer Reports* admits to many testing inconsistencies because their budget did not permit the kind of expensive, exhaustive testing procedures used by experienced engineers in the automotive industry.

Our own low-temperature performance ratings are based on recognized industry testing procedures used by all motor oil companies to comply with SAE requirements and API service designations.

The ultimate low temperature performance of a particular engine oil formulation is only proven through actual field performance.

Production of Kendall Motor Oil is carefully monitored to assure that every product meets these specifications.

We feel that the *Consumer Reports* article was misleading to consumers, and was a disservice to all motor oil companies who spend a significant amount of time and money in research and testing to make sure their products meet the highest standards.

We assure you—with no reservations whatsoever—that the *Consumer Reports* ratings are not correct, and that all Kendall Motor Oils meet all cold weather recommendations and standards. ■

Trading With Japan

By Linda J. Hoffman, Vice President Government Affairs & International Trade, Automotive Parts & Accessories Association

It seems almost everyone wants more foreign investment. We need it to finance our unsavory budget deficit and keep the ravages of high interest rates, inflation, and recession at bay.

But are we again preoccupied with only the short term? What are the long term consequences and what do we do about it?

When the transplanted Japanese assembly operations here reach full capacity, about 1.5 million vehicles around 1990, they will do so in a flat growth market. With Japanese imports continuing to flow here unchecked, the U.S. car market is soon to be in the throes of rampant excess capacity. Even with America's Big Three contracting more than ever with outside sources, excess capacity is going to push a lot of parts and accessories companies to the wall. Some of those parts companies probably will be pushed through the wall. And with them will go jobs, lots of jobs.

Because employment in the new foreign owned transplant is only about 25% of the traditional producer, for every one job created, three are lost in American owned plants.

Greater productivity? No. The Japanese are not manufacturing cars, they are

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assembling them, primarily from components imported from their family suppliers still in Japan. That's where their workers are, and that's where their profits go. The Japanese car assembly plant in the U.S. adds only about 20% of American owned and made content.

Japanese investment in our industry does not begin and end at the car assembly line either. A study produced for our government predicts that in two years, 300 Japanese parts and accessories companies will have set up shop here, not just to supply the Japanese car companies, but the domestic OE and aftermarket too. It is likely that these companies, too, will be importing sub-components and leaving their better jobs and profits at home.

Some in the business community, the administration, and Congress are beginning to reassess the impact of foreign investment in this country. They are beginning to realize that jobs and corporate profits once garnered by American companies and subject to our tax laws, are now going abroad in a big way.

They are beginning to recognize that the Japanese car companies are using precious few American made components, that the once dominant U.S. auto parts and accessories industry is now in danger of going the way of our once strong electronics, textile, steel, and agriculture industries.

They are beginning to look at the threats to national security, wondering whether a weakened U.S. controlled supplier base will compromise the nation's military strength. They are beginning to scrutinize the specter of massive foreign ownership of U.S. real estate, banks, and corporations. They are beginning to pay sharp attention to the $60 billion deficit with Japan, nearly half of which comes from lopsided motor vehicles and parts trade.

The open door policy employed by the U.S. permits the Japanese unbridled access to our markets and unlimited investment opportunities here. Yet we find ourselves virtually locked out of their market in Japan and the markets they have created in the U.S. and abroad.

Clearly, something must be done.

There is a big difference between closing markets permanently in order to avoid foreign competition, and carefully managing foreign market share, whether acquired through imports or through foreign investment, in order to have leverage in a committed move towards opening foreign markets. Both are sometimes labeled protectionist. But only one is. It is time our policy makers and our trading partners understood this. ■

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A HARD LOOK AT HARD PARTS

No matter who you are, you'll have to work harder than ever to get your share of hard parts sales.

By Edward L. Kaufman, Contributing Editor, and Gail Krueger-Nicholson, Senior Editor

The retail sales of replacement or hard parts is a complex business. Today, it seems like there are almost as many types of outlets selling hard parts as there are hard parts to sell. One generalization that can be made, however, about this complex business is that all participants will have to work harder and smarter to find growth in hard part sales today than they did in the past.

The retail sales of hard parts amounted to $29.6 billion in 1984, according to a 1985 Frost & Sullivan study on the automotive aftermarket. The study identified and discussed 24 specific categories of hard parts ranging from brake system parts to thermostats. Examples of hard parts include:

- **Fast-turn parts:** filters, spark plugs, ignition parts, wire and cable
- **Under-car parts:** brakes, exhaust, suspension including shocks/struts, high performance shocks for light trucks and 4WD, and steering
- **Cooling system parts:** belts and hoses, thermostats, caps, radiators, and add-ons like transmission coolers, engine oil coolers, electric fans and fan clutches
- **Bolt-on parts:** carburetors, water

Edward L. Kaufman is president of Lindsey-Kaufman Co., a marketing consulting firm specializing in the automotive and truck aftermarkets. Inquiries for additional information should be sent to him at: Lindsey-Kaufman Co., 53 Hamilton Place, Tenafly, NJ 07670, (201) 567-6158. We would also be happy to hear from you.

FAST-TURN PARTS

Fast-turn parts are the softest of the hard parts. These parts; filters, spark plugs, ignition parts, wire, cable, and the like, are the fast-turn parts which are important to chain stores because they are—or have been—readily installed by DIYers.

According to Andy Micklos, vice president sales of Wells Mfg. Co., chain stores achieved gains in ignition parts sales because of competitive prices and *visibility*. That is, these stores moved ignition parts from behind the counter to the aisles and utilized attractive hang-up packages and bubble packs.

The chain stores' share of the ignition parts market has grown because of *commitment*—the willingness of progressive chains to stock fuller lines. Micklos says, "In the past, stores could get by with 80-100 part numbers. That changed because of parts proliferation. For instance, on the 1957-74 GM cars one distributor cap covered all 17 years! On the newer models, separate SKUs are needed to cover four, six, and eight cylinder cars, electronic, non-electronic and so on. As a result, stores need to carry 200-250 part numbers at a *minimum*. The most successful chains carry up to 1,700 numbers in ignition parts."

Micklos notes that, "Another thing which characterizes progressive chains is that they want to stay current. These chains are not content to offer parts for cars in the five-to-13 year-old category; they want parts for *newer* cars as well. We've had to respond to chain store demand for parts for 1986 and 1987 models. Theoretically, these parts are the kind which ought to be replaced by car dealers under 5/50 warranties. Nevertheless, they are being bought *now* in chain stores. We don't know whether they are being installed by DIYers or the professionals."

Progressive chain stores, like progressive manufacturers, are also looking to "globalize" their aftermarket stock. "Globalization" is one of the buzz words of the automotive industry these days. It means, for one thing, a demand for foreign-make replacement parts for domestic vehicles. For example, since about 1981, Chrysler has become a big user of Hitachi ignition parts. These are made in Japan for domestic models of Chrysler products. Many of these vehicles are now in the parts replacement cycle.

One company helping retailers "globalize" their stock is Lucas Industries, a manufacturer and marketer of automotive parts. Lucas operates world-wide and sells alternators, starters, ignition parts and wire for both domestic and foreign-make vehicles. The Lucas line includes electrical items for Chrysler cars which are made by the OEM supplier. The line also includes imported OEM components for GM, Ford and AMC models.

Of course, in this country Lucas is well known for the electrical system parts used on *foreign*-make vehicles—everything from Honda Accord to Volvo. Lucas is also known for its Lucas Girling hydraulic and friction products which are OE on a large variety of domestically assembled vehicles.

Worthy of note is Speed Leads, Lucas' concept of selling ignition wire on an individual basis. The usual approach, boxed sets of six or seven wires for each model, leads to a lot of duplication in wire. The Lucas idea is to sell each wire separately. They are tagged for ready identification; customers can buy what they need—and no more than they want. The advantages to the retailer are less space, more turnover—and a ready answer to customers who squawk about having to buy more wire than they need to complete a job.

The big question mark in the fast-turn parts category is the fate of ignition parts. Many DIYers continue to install *conventional* ignition parts in older vehicles. Parts manufacturers expect sales of conventional ignition parts to phase out eventually. However, sales of conventional tune-up parts are declining more slowly than originally expected. Apparently, many DIYers are hanging on to, and lovingly tending, their old dream cars. ■

TRENDS FOR FAST-TURN PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	% Via Chains	Outlook To 1990
Filters	$2.0	2.0%	41%	Chains strong, specialists rising
Spark Plugs	$1.1	-1.5%	53%	Chains strong, specialists rising
Ignition Parts/Wire/Cable	$1.5	-2.6%	21%	WDs weak, shift to specialists
Total	$4.6			

Source: The Lindsey-Kaufman Co.

A HARD LOOK AT HARD PARTS

pumps, and other parts, many of which can be remanufactured parts.

Looking to 1990, the Frost & Sullivan report expects that retail sales of replacement parts will increase at about 5.5% per year in current dollars, or 1.5% per year in terms of real growth.

The study estimates that automotive chain stores and mass merchandisers account, respectively, for $4.2 billion and $3.1 billion of the 1984 total. In other words, volume retailers have made inroads in hard parts sales and now account for somewhere between 20% and 21% of the replacement parts business. However, the bulk of the hard parts are still sold via professional installers (car dealers, garages, gas stations, tire dealers, independent and franchised specialists) who are supplied either by the carmakers' parts divisions, the WD/jobber channel, or by expediters and buying groups.

How Things Were

In what some consider the "good old days" of the aftermarket, you could expect that the majority of hard parts categories would increase in sales faster than the economy as a whole. Steady increases resulted from the net effect of increased population, increased mileage, and the relatively fast growth of the vehicle fleet.

Since the early 1970s, however, there have been slowdowns in all of those areas.

COOLING SYSTEM PARTS

In a manner of speaking, cooling system parts—belts and hoses, thermostats, caps, radiators, and add-ons like transmission coolers, engine oil coolers, electric fans and fan clutches—are the hot spot in hard parts sales.

In most other hard parts categories, the outlook is for slower growth resulting from design improvements. *Some* products in the cooling system category appear to be lasting longer, in particular the new ribbed "serpentine" belts which reduce the number of parts needed because one belt does the work of three. However, the main trend in the cooling system area is for faster wear-out of parts as a result of factors which include:

- Smaller cars with small, hot running, high rpm engines.
- Emission controls with more heat from catalytic converters.

With higher heat there can be faster wear-out of rubber and plastic elements in the system. High heat also places a great stress on the engine coolant. In some cases, coolant is circulating at temperature of 240° F. Failures of the cooling system are a major cause of premature engine failure.

At Stant, a thermostat manufacturer, marketing manager John Blommel notes some factors reduce aftermarket demand for cooling system parts such as the increasing inaccessibility of components and extended warranties. Blommel said, "Formerly, the thermostat was located in an easy-to-reach spot on the top of the engine. All you had to do was remove a couple of bolts. In today's small cars it is harder for DIYers to reach thermostats without detaching other components. As a result, the DIY portion of the market may decline."

Regarding the impact of warranties, Blommel observes that under 12/12 warranties, car dealers get about 20% of the replacement cooling system business—including replacement of thermostats. Parts manufacturers believe that extended warranties may mean a big increase in replacement parts business done by car dealers. That, of course, would mean less business for independent installers and retailers.

But again, there are opportunities for retailers nevertheless. Complete new replacement radiators are one of those opportunities.

Historically, the approach to radiator problems was to rebuild the radiator on a custom basis. The advent of "completes" has resulted in sales gains by WDs, jobbers and generalist installers at the expense of old-line "re-coring" specialists. About 90% of the installation of "completes" is done by professionals. However, the installation is not very difficult, so approximately 10% of sales are obtained via DIY-oriented chains.

At Modine Auto Cool, marketing manager Dale Roble notes that the cooling system is becoming integrated with other systems on the car—air conditioning, for example. Therefore, in the future DIYers may find it trickier to detach and replace radiators; that is, they will have to exercise care not to interfere with other automotive systems.

TRENDS FOR COOLING SYSTEM PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	Outlook To 1990
Belts/Hoses	$0.6	4.0%	WDs & jobbers remain strong
Water Pumps	$0.6	3.5%	in wholesaling because of
Seal/Oil/Radiator Caps	$0.2	1.9%	parts proliferation problems.
Thermostats	$0.4	1.9%	Opportunities for quick
Replacement Radiators	$0.4	7.5%	service specialists
Oil Coolers	NA	NA	Chain growth strong
Total	$1.9		

Source: The Lindsey-Kaufman Co.

The important fact, however, is that as of 1987 there is a growing DIY market for complete radiators. Radiator replacement is rising—sales are increasing in *units* at between 5-10% per year—and chain stores are happy to participate in the business.

Roble says, "At Modine, we believe in making available very full lines of radiators. We stock 500 part numbers. However, we don't expect retailers to stock anywhere near that number. Some successful chains stock 15-20 of the most popular numbers at their stores and rely on our specialist feeders to provide quick delivery of slower movers.

"We work with chain stores to develop programs that meet their individual needs. For instance, some chains prefer to buy everything direct and do their own warehousing, some prefer to have the services of one or more feeders—and some prefer to do some of both, stock the popular movers and rely on feeders for the rest.

"Chain stores have found that many customers will accept overnight delivery. Auto Shack sells many radiators on the basis of its 'Express Parts' overnight service," Roble said.

Oil coolers are another area of opportunity for retail sales. Back in 1961, Perry Hayden developed the first transmission oil cooler. Since then, Hayden Inc. has become the best known producer of add-on cooling system items including engine coolers, add-on electric fans and flex fans.

Most of the items in Hayden's line are used on vehicles under stress from carrying or towing heavy loads. The typical customer is the owner of a truck, 4WD vehicle, or sedan used for towing a house trailer or boat. These tend to be the same kind of performance-minded, upscale people with active recreational interests who buy premium suspension systems.

In a sense, sales of cooling system parts like replacement radiators and add-on coolers may be the means for off-setting declining sales potential on other hard parts such as conventional ignition and carburetor parts. ■

A HARD LOOK AT HARD PARTS

In addition, vehicle engineering changes since the early 1970s have resulted in longer lasting (albeit more expensive) parts in most categories.

Also back in the "good old days," volume retailers were not the players in the hard parts game that they are today. From the 1960s through present, volume retailers gained share of the aftermarket and of hard parts sales via:

- Increasing their number of outlets.
- Increasing their emphasis on automotives versus non-automotives.
- Increasing their advantages over local jobbers in terms of purchasing power, merchandising ability, advertising know-how, and resources.

It is also important to remember that the automotive chain store market is not exclusively a DIY outlet. Besides DIY sales (and, for some chains, service bay sales), all automotive chain stores receive some "walk-in" business from professionals. The chains get this business partly on the basis of highly competitive prices—lower in many cases than the prices charged by jobbers—and convenient hours of service. Some chains actually solicit wholesale business by offering discounts to installers.

The Volume Retailer And Hard Parts

Initially, volume retailers achieved their greatest aftermarket share gains on "soft lines" such as motor oil, waxes, additives, antifreeze, accessories and fast turnover, DIY-oriented replacement parts such as filters, spark plugs, wiper blades, and automotive lighting. To be sure, some mass merchandisers have dropped out of the aftermarket or have reduced the amount of floor space they devote to automotives.

The more important trend with these retailers, however, has been to become *more* automotive oriented. That is, to place even more emphasis on sales of hard parts, performance parts, and parts add-ons (like oil coolers). These volume retailers have made gains on hard parts sales largely at the expense of jobbers.

The big question for the future is: Will the chain stores continue to gain hard parts market share considering today's competitive market factors? These factors include:

- **Extended warranties**, which may hold more business at the car dealers.
- **The rise of service specialists**, some of which (like muffler shops) appear to have gained share of market partly at

UNDER-CAR PARTS

Under-car hard parts include brakes, exhaust systems, and suspension systems. While it may appear that these categories are being gobbled up by the specialty installers, each still offers sales opportunities for retailers.

For instance, brake parts manufacturers believe the bulk of replacement hydraulic components are installed by professionals. In fact, chain stores find that a large—and growing—percentage of car owners are seeking professional brake installation. The gainers in the brake parts business are under-car service specialists, including brake specialists, muffler/brake/shock specialists, and tire dealers.

On the other hand, there is an active DIY market in brake friction products. In fact, some retailers observe that it seems easier for DIYers to replace disc brake pads than drum brakes. One retailer says, "Talk about 'complex technology!' When disc brakes came in, manufacturers told us DIYers would *never* be able to install them—too complex. In fact, they are simpler to replace."

Exhaust parts is another category going to specialists. In fact, this is probably the prime example of the penetration into the aftermarket made by service specialists. Consumer surveys undertaken over a ten year period show steady gains by muffler shops—and steady declines by mass merchandisers.

But again, there are sales opportunities for retailers who will take advantage of them. For instance, performance-type mufflers are still largely installed by DIYers. Responding to this demand, Maremont introduced a new Turbo Muffler. Ron Newton, Maremont vice president marketing, describes the performance muffler by saying, "It has a throaty sound and it produces less back pressure. It is also a *universal* muffler: five SKUs cover all applications. It is designed to bring some excitement back to the stores."

When it comes to under car-parts, some of the real sales opportunities for retailers come from the suspension category, especially from high performance schocks and suspension parts. These products appeal to two customer categories of interest to retailers:

- **Performance-minded customers:** By definition, these people are willing to pay a premium for parts which exceed original equipment specs.
- **Owners of pick up trucks and four wheel drive vehicles:** These have been two of the fastest growing types of vehicles for the past ten years. These people tend to have active recreational interests (hunting, off-road touring) and require extremely rugged, high performance ride control parts.

As one example, this year retailers are going to hear more about Rancho Suspension's line of premium quality shocks, stabilizers, overload springs and other suspension parts. The reason is that Rancho products have an excellent name among those performance-minded customers and owners of trucks and 4WD vehicles.

Founded in 1955, Rancho Suspension gained its initial experience in developing suspension systems for race cars in endurance races such as the Baja California run. Later, Rancho concentrated on developing premium quality shock absorbers and other ride control products (coil springs, bushings, add-a-leaf overload springs) for light truck and 4WD application. In the early 1980s, Rancho added lines of shocks and suspension products for cars such as Camaro, Firebird, Thunderbird, Cougar, Mustang and 1978-85 GM mid-size automobiles.

Rancho's marketing concept is based on superior quality, pricing comparable to other premium quality suspension lines, 50% fewer SKUs (resulting from innovative approaches to consolidation), and a complete program of retail selling aids.

Gene Shook, president of Rancho Suspension notes that, "SEMA's recent market study showed that 80% of high performance customers have made their brand decision before they enter the store; only 5% buy any other brand other than the one they had in mind when they entered. Brand recognition and brand loyalty are extremely important in sales of performance products." ■

TRENDS FOR UNDER-CAR PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	Outlook To 1900
Brake Parts	$2.1	2.4%	A major shift in business from [illegible]
Exhaust Parts	$2.0	1.0%	[illegible] served by jobbers
Shocks/Struts	$1.0	1.5%	to service specialists,
Steering Parts	$1.1	5.6%	tire dealers and service-oriented
Suspension Parts	$1.0	4.4%	[illegible]
Total	**$6.2**		

Source: The Lindsey-Kaufman Co.

A HARD LOOK AT HARD PARTS

the expense of DIY-oriented chains.

- **Complex, computer-controlled components,** which may discourage DIY installation.

The Future Of Hard Parts

There are *wide* differences of opinion on how these factors will affect the volume retailers' ability to sell hard parts. Some of the opinions clearly reflect wishful thinking. For example, numerous WDs and jobbers believe – or want to believe – that the trend toward computer controlled fuel systems will mean the decline of DIY installation. To the extent that these WDs and jobbers serve DIYers, they see this as hurting themselves, too.

However, the really big losers, they believe, will be the "mass merchandisers" (in this group, they include automotive chain stores). There appears to be a consensus among the WDs and jobbers that the volume retailers will be confined to selling "soft goods." Their rationale: new automotive systems are so complex that even *professionals* have difficulty in knowing what parts aren't working and how to replace them. Therefore, DIY-oriented chain stores will be at a loss because they lack the resources to guide DIYers in installing such things as injectors and oxygen sensors.

And WDs and jobbers are not alone in holding these opinions; they are shared by some hard parts manufacturers.

Not surprisingly, the chain stores have different opinions. They *are* worried about extended warranties. They tend to believe that the 5/50 warranties on emission controls do hold business at the car dealerships, business which might otherwise represent sales for the independent aftermarket – including DIY-oriented retailers. They resent what they perceive as a lack of cooperation on the part of carmakers in making technical training data available.

But, on the question of viability of the DIY business, they are (or seem) quite optimistic. One senior executive of a major chain store said, "Don't underestimate the ability of our young people to deal with these new products. These days you see seven-year old kids operating PCs." In other words, high-tech youths can handle high-tech parts.

Some automotive service experts agree with this view. One said, "Replacing these so-called exotic parts is actually easier – much, *much* easier – than the conventional parts. Take fuel systems, for instance; it is a cinch to replace parts of electronically controlled fuel systems. And no judgment is involved; either they work or they don't work. By comparison, a carburetor is a complex system with considerable need for adjustments and fine tuning – certainly more judgment."

However, three manufacturers of fuel system parts see the situation differently. One said, "Physical replacement of electronic components *is* easier, cleaner, and nicer than replacing conventional components. But, you have to know whether the item ought to be replaced – meaning, that the DIYer or installer has to have diagnostic capability – and you have to *locate* the faulty item; not always easy to do – in fact, often *hard* to do."

On that last point, another product manager said, "I can think of 12 sensors which might fail on a 1986 Buick. Three of them look identical, are located within an inch of each other, and control three entirely different functions!"

Another product manager observed, "Replacing fuel injector parts can be tricky – even hazardous. You are dealing with gases under pressure. You have to know how to bleed the system. That takes knowledge."

Education Is The Key

Nevertheless, growth in hard parts sales is there for alert participants. At the retail level, finding growth may be a matter of emphasizing products for fast growth vehicle categories (parts for foreign-make cars in some regions, or parts for pick-ups, vans, and FWD vehicles in others). Growth may also be a matter of achieving market share gains by doing a better job of making needed/wanted parts available, offering competitive prices, and doing more and better merchandising and advertising. And, increasingly, growth may come from doing a better job of educating consumers on the selection and installation of hard parts.

Here is a look at where the sales opportunities are in some hard parts categories. ■

BOLT-ON PARTS

Bolt-on parts such as fuel system parts, carburetors, water pumps, and a variety of remanufactured parts also offer sales opportunities for retailers. Manufacturers of these parts, like Tomco Inc. of St. Louis, MO, promise to "sell solutions" to a variety of engine problems.

Tomco manufactures a broad and growing line of fuel system replacement parts. Tomco is known for its carburetor kits, but also sells fuel injectors. New this year at Tomco are oxygen sensors, EGR valves, throttle holding solenoids and engine coolant temperature sensors.

Tomco's advertising manager Ed Henne says, "Customers want to know where these items are located in their fuel systems." To help answer these questions, Tomco makes available a display header which shows the location of the various components and elements of the fuel system, according to Henne.

Are fuel systems getting too complex for DIYers? Henne answers, "Not really. The systems are more sophisticated, no question about it. However, the big question is diagnosis. We see hand held diagnostic computers coming along which will aid car owners in doing their own fuel system work."

Fuel systems are not the only items in this hard parts category.

Walt Delevich, manager of marketing services for the SKF Automotive Products Div., says his company has a comprehensive merchandising approach for selling engine parts, chassis parts, cooling system parts, and the SKF complement of anti-friction bearings and rods. The SKF system features catalogs, displays, and packaging and is designed to:

- **Sell up to the higher priced, higher quality, new parts with the lifetime warranty, and**
- **Sell related items, and not just its own division's items but *other* items needed for the complete job which are profit makers for stores.**

For example, the SKF water pump catalog and packaging reminds the DIY customer of the need to replace belts, coolant, thermostats and clamps. This is clearly a benefit to the retailers as well as the DIYers and installers. ■

TRENDS FOR BOLT-ON PARTS

Products	1984 Retail Sales ($ Billions)	Real Growth Rate 1984-90	Outlook To 1900
Total	$6.2		

Source: The Lindsay-Kaufman Co.

SERVICE MARKET REPORT

SERVICING A SYSTEM FOR LOVE AND MONEY

Why cooling system work should be your favorite service bay money-maker.

by **David A. Evans,** Contributing Editor

Why do I love cooling/heating system service? Let me count the reasons.

One reason is that it tends to be a periodic maintenance service—as opposed to involving intensive diagnostic capability. All the mechanic has to do is look at the month and year during which the car was built to discover whether or not the service can be recommended. He takes this information, compares it with the recommended service interval in the owner's manual, or his service desk reference book, and then decides whether or not the correct time interval has elapsed.

David A. Evans has participated in the aftermarket for over 25 years. He has worked as a line mechanic in a dealership, has owned a chassis shop, and has owned an 18-bay general service facility. His technical, sales, and management training material are in use by a variety of well-known automotive manufacturers. Dave would be happy to take your questions or comments, and can be reached at (312) 394-5349. We would also appreciate your comments.

More Reasons To Love This Service

Another reason to love cooling/heating system service is that it is almost a "no brainer" as far as cost is concerned.

While prices do vary across the country, seldom have I seen an advertised price which would put this system service into the category of an extravagance. Almost anyone who can afford one of the later model cars, which demand more frequent cooling system service, should be able to afford the reasonable pricing put on this service.

Besides, this service has slipped into a mode of "magic," or promotional, pricing, which is now a good mode.

From a service department standpoint, I am often wary of "magic" pricing, because it tends to depress income for the least flexible cost factor: wages. In the case of this service, however, I think "magic pricing"—on both the commodity and the functional service—works to the chain store's advantage.

First of all, this is a commodity-related service which the customer easily understands. It involves a product, antifreeze, which, by itself typically enjoys promotional price status in almost every market in the country. Thus, customers can compare a complete system service price, relate it to the price of antifreeze in the market, and perceive a true value, if that is what's being offered. (Of course, if it is a lousy price which is clearly too high—shame on you.)

Second, as drivers educate themselves to the need for this service (just as surely as they have educated themselves into the need for oil changes) they will *look* for cooling/heating system service specials. This gives the store with marketing muscle a chance to excel. And, this leads me directly to the next point.

Chains Do Well Here

The automotive chain store is probably in the best position to offer the customer the product, service, price, and value he wants. Since chains have the buying power on the antifreeze, they are in the best position to offer the stunning promotional prices which the value-oriented consumer looks for. Chains are in a unique position to attract customers who shop the ads.

Second, chains tend to have the continuous, year-long media dominance required to get the business. Cooling/heating system service can no longer be considered seasonal, since it is now needed

periodically, according to the carmakers. Aftermarket retailers can take advantage of both mindsets to stimulate service. In addition to regular inspection systems, cooling/heating service can continue to be a part of a Fall and Spring module in your promotional plans.

However, as I said earlier, the service need is periodic. Since all cars tend to need ethylene glycol in their systems throughout the year (as opposed to just in Winter), and since there is no longer a Summer/Winter change of thermostats with the seasons, we can truly say, "Any time is a good time for cooling system service, so long as the service interval recommended by the manufacturer is the reference."

Thus you must build awareness of the service need at all times. Clearly, the retailer with a year-round media advertising program designed to build traffic will get cooling system work. Businesses which do only seasonal promotion, and do not do system inspection on every car which rolls into their bays, are getting only part of the business. A small part.

The Service Is Simple

The service is simple because the routine is highly mechanized. Cooling/heating system service is not a drain and fill operation. It is a flush and fill operation—and more. But the flushing aspect is not handled by men, but by machines. If you are going to do this service, then you need the highest-tech flushing equipment you can buy. You want to be able to plug the machine into the system, and let the technician do other work while the machine does its duty. That way you can double up on the time, income, and profit from this service.

But just because this service is simple, it doesn't mean there is no training involved. Your staff should have periodic updates in system service from the vendors of your service hardware. If your suppliers don't provide this training, then you have the wrong service suppliers.

There Is A Nasty Trap

What you don't want to discover as you service the cooling/heating system is a failed water pump, a cracked head, a cracked block, or a failed seal or gasket. If you find an easy-to-replace water pump, of course you want to do the job. It is good add-on business and most mechanics can handle a simple water pump replacement with relative ease. But there are some water pumps which are buried deep in the engine compartment. These pumps defy fast and profitable replacement in the face-paced, volume oriented automotive chain service bay.

COOLING SYSTEM SERVICE

We asked our Retail Panel: "In what months do you have the most demand for cooling system repairs?"

February, March, April, May	7%
June, July, August, September	50
October, November, December, January	32
No Answer	7
Don't Know	4

Source: *Automotive Marketing's* 1987 Retail Panel

A cracked head or block or failed head gasket is also cause for dismay. The cracked block is not your cup of tea unless you install short block assemblies (few chains do, in my experience) and the cracked head is almost as bad.

The determination that one or more of these time traps might bury your men on a particular car comes from a careful visual evaluation of the engine compartment and coolant condition, plus careful questioning of the customer. Only a well-trained and alert service writer or manager can keep on top of these potential profit busters.

There is a way to handle these jobs profitably if you have the vision it takes to see it: extend your hours.

Since you don't want to tie up quick service bays with slow service work, wait until the day is over, then roll in the hard ones for late night and overnight service. You may need to stagger your service bay hours to provide late night service. More and more service vendors are doing this.

Or you can offer overtime on the more specialized and skill-oriented tasks, such as "deep" water pump replacement, head work, and block replacement. Many technicians enjoy this sort of work, and other just like the extra money. You will seldom have trouble finding volunteers for this work.

Inspect For Profit

When it comes to cooling/heating system service, antifreeze is not the profit maker. Hoses, clamps, belts, valves, heater cores, heater fans, radiators, expansion tanks, water pumps, anti-leaks chemicals, fans, fan spacers, fan clutches and the like are the big winners.

But you don't get this business without effort. Inspection is critical. If the mechanic doesn't look for the work in the first place, then the service will not be purchased.

And the add-on sales will only come when the mechanics have the tools required to test the car properly and know how to use these tools.

The major tool for this work is a system pressurizer. These are designed to put pressure throughout the cooling system to stimulate latent leak conditions.

I'm going to tell you a little secret: Most mechanics are too lazy to use these devices correctly. They pump up the system, look at the register needle for a few seconds, then do a quick inspection to find the obvious faults.

This is not good enough.

The instructions on these devices say the designated test pressure is supposed to hold for at least *two minutes*. Minor leaks become major leaks when the technician does an adequate pressure test. Quick and dirty is not good enough.

When you get after your mechanics on this point, they usually respond by just pumping the system up to a higher pressure to help speed the process. By doing this, they also burst good heater cores which is still not the right thing to do. You need to avoid this syndrome as well, which means you must constantly evaluate their ability to do a system diagnosis correctly.

You must also be certain they repeat the pressure check after the work is done. This is the extra step that ensures the job is truly done.

In my shop, using the pressure tester, even the best of my mechanics found fittings which weren't quite tight enough after doing very profession work. Your true professionalism will be found in the fact that you test the system under pressure before and after the the major work, too. ■